

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 AID-05 CIAE-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

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TAGS: ECON, ETRD, FI

SUBJECT: BANK OF FINLAND TIGHTENS DOMESTIC CREDIT AND WILL REDUCE
BORROWING ABROAD

REF: HELSINKI 2047

1. SUMMARY: FINLAND'S CENTRAL BANK ANNOUNCES TEN PERCENT
REDUCTION OF LENDING CEILING FOR COMMERCIAL BANKS AND ALSO
THAT AUTHORIZATION FOR BORROWING ABROAD WILL BE REDUCED
SUBSTANTIALLY. REDUCTION OF FINLAND'S TRADE DEFICIT NEXT
YEAR TO 2 OR 3 BILLION FINNMARKS FROM THIS YEAR'S NOW
PREDICTED 8-9 BILLION FINNMARK RANGE IS MAJOR OBJECTIVE.
END SUMMARY.

2. FINLAND'S CENTRAL BANK, THE BANK OF FINLAND, HAS
ANNOUNCED A FURTHER TIGHTENING OF DOMESTIC CREDIT BY TEN
PERCENT, AND ALSO THAT RATE OF FOREIGN BORROWING WILL
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BE REDUCED BY SEVERAL BILLION FINNMARKS. REPORTEDLY

MONETARY POLICY WILL BE FURTHER TIGHTENED AROUND THE
END OF 1975, TO OFFSET RETURN TO CIRCULATION OF IMPORT
DEPOSITS WHICH WILL BEGIN TO REVERT TO IMPORTERS
IN OCTOBER.

3. BANK GOVERNOR MAUNO KOIVISTO HAS EXPLAINED THAT NEW
MEASURES ARE NECESSARY BECAUSE FINLAND'S TRADE BALANCE
IN RECENT MONTHS HAS BEEN MUCH WORSE THAN PREDICTED
(SEE REFTEL FOR JAN-AUGUST TRADE BALANCE
FIGURES). HE SAID THAT CONSUMPTION AND INVESTMENT IN
FINLAND HAD GREATLY OUTRUN EXPORT EARNINGS, SHARPLY
DOWN IN VOLUME BECAUSE OF WEAK DEMAND IN MOST MAJOR
EXPORT MARKETS.

4. ALTHOUGH INITIAL COMMENT ON THE BANK'S NEW MEASURES,
TO BE EFFECTIVE OCTOBER 1, VARIED, THERE WAS GENERAL
AGREEMENT THAT SOMETHING HAD TO BE DONE. CONFEDERATION
OF FINNISH TRADE UNIONS SPOKESMAN DEPLORED UNEMPLOYMENT
WHICH WAS SURE TO RESULT FROM TIGHTER MONEY POLICY AND
SUGGESTED EXEMPTING CONSTRUCTION INDUSTRY FROM CREDIT
CURBS IN INTEREST OF MAINTAINING EMPLOYMENT LEVEL.

5. SOME OTHER COMMENTATORS ON OTHER HAND FELT MEASURES
WERE LATE AND DID NOT FAR ENOUGH (E.G. THEY CALLED
FOR RESTRAINTS ON WAGE AND SALARY INCREASES AND REDUCTION
OF SIZE OF CENTRAL GOVERNMENT BUDGET DUE TO BE PRESENTED
TO PARLIAMENT IN MID-OCTOBER). MOST AGREED THAT HIGHER
UNEMPLOYMENT, STILL AROUND 2 PERCENT, WAS INEVITABLE
AND THAT CAPITAL INVESTMENT WOULD ALSO SUFFER. BECAUSE
FINLAND'S INDUSTRIAL PRODUCTION VOLUME IS DOWN - BY
13 PERCENT IN JULY 1975 AS COMPARED TO JULY 1974 - A
REDUCTION IN INVESTMENT VOLUME WOULD IN ANY CASE HAVE
BEEN LIKELY.

6. ALTHOUGH FINLAND HAS BEEN REMARKABLY SUCCESSFUL IN
BORROWING ABROAD, BOTH SHORT AND LONG TERM, TO COVER ITS
CHRONIC BALANCE OF PAYMENTS DEFICIT, THERE HAVE BEEN
ONE OR TWO RECENT INDICATIONS THAT FOREIGN LENDERS ARE
TAKING A CLOSER LOOK AT FINLAND'S FINANCIAL
SITUATION. HELSINGIN SANOMAT, FINLAND'S LARGEST NEWS-
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PAPER COMMENTED EDITORIALY SEPT 25 THAT QUOTE INCREASING
FOREIGN DEBT HAS MADE IT POSSIBLE FOR THE NATION TO
LIVE BEYOND ITS MEANS. HOWEVER THE NATION CANNOT ENDLESSLY
CONSUME MORE THAN IT PRODUCES. ... FOREIGN DEBT IS LAREDY
SWELLING BEYOND TOLERABLE LEVERLS... FIRST IT MUST BE
REALIZED THAT, FOR HE TIME BEING, THERE ARE NO PROSPECTS
FOR A GENERAL INCREASE IN THE STANDARD OF LIVING. END QTE.
THE EDITORIAL ENDED BY URGING THE POLITICAL PARTIES

TO SEIZE THE ECONOMIC NETTLE AND NOT TO HID BEHIND
THE CURRENT EXPERT'S GOVERNMENT. THEY MUST SOON TAKE
A POSITION ON THE UPCOMING VERY SIGNIFICANT BUDGET
PROPOSALS.

7. OPTIMISTS NOW PREDICT FINLAND WILL START RECOVERY
FROM RECESSION IN MID--1976; PESSIMISTS BELIEVE 1977
MORE REALISTIC.
AUSTAD

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